AGRICULTURAL
RETAILERS
ASSOCIATION

TESTIMONY OF

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EXECUTIVE VICE PRESIDENT, & CHIEF OPERATING OFFICER

W B JOHNSTON GRAIN COMPANY

REPRESENTING

THE AGRICULTURAL RETAILERS ASSOCIATION

AT A HEARING OF THE

HOUSE COMMITTEE ON AGRICULTURE

ON

"REVIEW OF FARM BILL POLICY"

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INTRODUCTION

Thank you Chairman Goodlatte, Ranking Member Peterson, and other members of the committee for holding this hearing today to review federal farm bill policy.

I am Dennis Craig, Executive Vice President and Chief Operating Officer of W B Johnston Grain Company, based in Enid, Oklahoma. I am also Chairman of the Agricultural Retailers Association's (ARA) Regulatory Policy Subcommittee and member of the ARA Board of Directors. Johnston Enterprises is an independent family owned business founded in 1893 that has diversified its operations to include agricultural retail outlets, 21 grain elevators, a cotton gin, a seed company, water ports in two states, a trucking company, five seed cleaning facilities and an agricultural experimental research farm.

ARA members are made up of independent family-held businesses such as W B Johnston Grain Co., farmer cooperatives and large national companies. A typical retail outlet may have 3 to 5 year-round employees with additional temporary employees added during the busy planting and harvesting seasons. Many of these facilities are located in small, rural communities. Agricultural retailers proudly provide critical goods and services to farmers and ranchers such as seed, crop protection chemicals, fertilizer, fuel, crop scouting, soil testing, custom application of pesticides and fertilizers and development of comprehensive nutrient management plans, and state of the art integrated pest management (IPM) programs. Farmers and ranchers are an important part of a strong rural economy. Many retailers are also farmers and land owners so they understand their farmer customers' needs. Certified crop advisors (CCA's) who are tested and licensed are retained on many retailers' staff to provide professional guidance on agronomy and crop input recommendations to their farmer customers. ARA is the only national trade organization that exclusively represents the interests of our nation's agricultural retailers and distributors.

KEY QUESTIONS FOR CONGRESS TO CONSIDER

This hearing today provides us an opportunity to review current farm bill policy and ways to make improvements as a 2007 farm bill is crafted beginning next year. There are several key questions that ARA believes this committee and Congress as a whole need to consider in order to ascertain the right direction America's future farm bill policy should take.

- Is the current farm bill policy working?
- Should Congress pass an extension of the current farm bill programs in light of the recent breakdown in the WTO trade negotiations?
- What improvements should be made to conservation and environmental stewardship policies?
- What opportunities can farm bill policy help foster for America's agricultural industry?

IS THE CURRENT FARM BILL POLICY WORKING?

The commodity title of the farm bill is designed to provide a "safety net" and level of stability for farmers that grow traditional program crops, which are largely used as feed, food grains, fibers, and oilseeds. Generally these commodity payments are tied to the amount of cropland enrolled in the programs and yield histories. As a whole, we believe the current farm bill commodity programs seem to be working well. The economic success of agricultural retailers is directly connected to the profitability and financial well-being of their farmer customers. The U.S. agricultural industry continues to be an efficient producer of food and fiber, consistently meeting the needs of the nation's consumers as well as consumers around the world with the safest, most abundant and affordable food supply in the world. An income safety net for farmers should be maintained but it must be price and production neutral.

A recent example would include the wheat producers in Oklahoma and surrounding states. The current drought produced the smallest wheat crop in the past 60 plus years in Oklahoma. Low production causes higher prices. Counter-Cyclical and Loan Disaster are triggered by lower average prices. Therefore, these two safety net merchandising did not work. They are not price and production neutral.

ARA recommends Congress review whether to target direct commodity payments to the activity of the farmer rather than to production history and landowners. This could help ensure that government payments go only to those individuals that actually stay involved in production agriculture. Commodity payments going to landowners, recently highlighted in the news, who do not farm is not an efficient use of taxpayer dollars and only hurts the industry's image with the general public. ARA supports continuing to providing flexibility on cropping farm land and policies that support the efficient use of crop inputs. However, as an industry we strongly oppose any requirements that would prevent the judicious use of plant nutrients and crop protection chemicals as part of a requirement for participation in any farm bill program. Nutrient and pest management should be based on precise plant and soil needs rather than any government policy that arbitrarily proposes reduced used of inputs as an overall environmental objective, without any scientific basis or consensus.

ARA recommends that farmers and ranchers enrolled in conservation or environmental protection farm programs be required to consult with a Certified Crop Advisor (CCA), Pest Control Advisor (PCA), or an equivalently licensed local professional before applying crop production materials on their environmentally sensitive fields. CCAs are highly educated and extensively trained in four major competency areas: nutrient management, soil and water management, integrated pest management and crop management. A primary focus of these licensed professionals is grower profitability while helping protect natural resources and the surrounding environment.

As members of this committee well know, over 50 percent of all U.S. counties have been declared primary or contiguous disaster areas by the United States Department of Agriculture (USDA) this year. These designations are in addition to the nearly 80 percent of counties declared disasters in 2005. The economic impact of these disasters has a resounding effect on our rural communities. ARA has joined a number of commodity and farm organizations in urging Congress to enact emergency agricultural disaster legislation for Fiscal Years (FY) 2005 and 2006. The August 29 announcement by USDA of $720 million in new, unused and accelerated disaster assistance funding will provide much needed help to many producers, their creditors, and rural communities that are facing financial uncertainty and need Congress to act soon. However, additional emergency assistance is likely needed to alleviate the serious problem facing the industry. To prevent the necessity for future ad hoc disaster programs, the new farm bill should try to address this serious and ongoing problem through revisions to current crop insurance and disaster assistance programs.

SHOULD CONGRESS PASS A FARM BILL EXTENSION?

America's agricultural industry is increasingly being impacted by a changing global marketplace. The passage of the North American Free Trade Agreement (NAFTA) and Uruguay Round GATT Agreement were beginning efforts to help level the playing field with our foreign competitors by reducing both tariff and non-tariff trade barriers. A major issue now before this committee is whether to extend the 2002 farm bill until the World Trade Organization's (WTO) Doha Round negotiations are completed, which is supposed to be the next major step in reducing global trade barriers. Unfortunately this past July we saw a breakdown in these WTO negotiations with no sign that any real progress can be made anytime soon. This primary obstacle remains a central issue related to increased market access for farm products.

ARA agrees with U.S. Trade Representative Susan Schwab's comments that the United States should continue to seek a successful outcome to the WTO's Doha Round as long as any final deal resulted in a real opening of trade. ARA supports efforts in Congress to extend the 2002 farm bill until these WTO negotiations are completed. Major changes to current U.S. farm policy should not take place until there is a clearer picture on the final outcome of these trade discussions and its true impact on the nation's agricultural policy.

WHAT IMPROVEMENTS SHOULD BE MADE TO CONSERVATION AND ENVIRONMENTAL STEWARDSHIP POLICIES?

Conservation programs have focused largely on maintaining the productivity of cropland as well as protecting watersheds, flood prevention activities, reducing soil erosion and runoff. If American agriculture intends to continue to be productive and prosperous, it will need to promote environmental stewardship along with the need to produce a marketable crop in an increasingly competitive global marketplace. The 2002 farm bill saw a substantial increase in funding for conservation programs. According to USDA, funding for conservation programs amounted to $4.7 billion in fiscal year 2005, an increase of $1.7 billion from 2001. Given the current trade disputes such as Brazil's ongoing WTO case against U.S. cotton programs and potential future cases against other commodities, it is highly likely that even more farm bill funding will be shifted into so-called "green payments" under the conservation title.

Environmental Quality Incentives Program (EQIP) and Conservation Security Program (CSP)

The original intent of the Environmental Quality Incentives Program (EQIP) was to primarily assist livestock producers with CAFO operations who had to manage threats to soil, water and air from animal waste. A stated USDA-NRSC national policy priority is the reduction of non-point source pollution such as excessive nutrients, pesticides, sediment or excess salinity in impaired watersheds. It has been brought to ARA's attention that EQIP funding is being provided to farmers to install enhanced pesticide loading and storage facilities in order to protect against spills from bulk handling systems. According to the NRCS, since 1999 there have been 406 farm sites that have received EQIP dollars for the construction of existing or new agrochemical mixing and storage facilities. USDA states that this "NRCS cost-share funding allows farmers to install measures that might impact drinking water wells and other sources of water." USDA seems to indicate that as farm sizes increase the agency will encourage farmers to build bulk pesticide storage facilities on environmentally sensitive land using scarce taxpayer resources. While ARA strongly supports environmental stewardship and proper secondary containment for bulk pesticides and fertilizers in environmentally sensitive areas, we do not believe that providing EQIP dollars to assist farmers in the building of these facilities is the most effective use of the limited funding available under this program.

Why would the federal government through the use of large taxpayer subsidies encourage the construction of bulk pesticide on farmland in environmentally sensitive areas and help increase the risk of spills and the contamination of drinking water wells and other sources of water? Such a policy seems inconsistent with USDA's stated national policy priority of reducing non-point source pollution of pesticides and nutrients. Under the current EQIP program, individuals were eligible to receive up to $450,000 during the life of the 2002 farm bill. ARA believes that the most effective and efficient use of these EQIP dollars is livestock operations required to meet EPA's CAFO regulations through the use of methods such as buffer strips and waste management systems. Agricultural retailers have already spent tens of thousands of dollars of their own money to build state of the art bulk pesticide storage and handling facilities. At these facilities our industry has highly trained employees that are required to comply with countless federal and state environmental and safety regulations. To our knowledge these bulk pesticide and fertilizer facilities being built on farming operations with EQIP funds are not being properly inspected and regulated by federal or state officials, do not have spill insurance or workers adequately trained or supervised to handle these bulk products. ARA believes these facilities funded through the EQIP program should be periodically inspected by appropriate local, state or federal officials to ensure compliance with all laws and regulations related to the proper storage, handling, repackaging and labeling of agricultural chemicals. The current policies are a potential recipe for serious environmental problems if not properly addressed.

ARA also believes that a pesticide storage facility should not be located in an environmentally sensitive areas watershed area covered by the Conservation Security Program (CSP), a voluntary conservation program that supports ongoing stewardship.

Conservation Reserve Program

The 2002 farm bill authorizes the enrollment of up to 39.2 million acres under the Conservation Reserve Program (CRP). According to USDA, through fiscal year 2005 over 34.9 million acres have been enrolled, providing $1.6 billion in annual rental payments to landowners and operators. CRP has been successful in meeting its primary objective of reducing soil erosion. A recent USDA report states that CRP has reduced soil erosion by 450 million tons per year.[1] However, this is down significantly from the 700 million tons per year in reduced soil erosion or 19 tons per acre on average reported in 1995. ARA believes that this diminishing return is the result of millions of acres of productive farmland that is not environmentally sensitive being enrolled in the CRP only for the guaranteed revenue. Much of the currently enrolled CRP acreage could meet conservation compliance requirements or objectives without costing taxpayers millions of dollars in program payments.

Between 2007 and 2010 there are 26 million CRP acres under contracts expiring, including 16 million acres in 2007. In light of the budgetary pressures and scarce fiscal resources, ARA believes that any future CRP enrollment should be limited only to highly erodible, environmentally sensitive land and the inclusion of land that can be used as filter strips, trees or vegetative cover along streams, rivers or other waterways. Productive land should be allowed to return to crop production or provide grazing areas for livestock. In the July 2006 issue of USDA's *Amber Waves*, it found that "by retiring productive farmland, CRP may have reduced demand for certain farm services, undermining the strength of local economies in farm-dependant areas. And by making it easier for farm operations to retire from farming, CRP may have facilitated population outmigration from farming communities."[2] ARA strongly agrees with this assessment. Agricultural retailers have been directly impacted as a result of the expansion of the CRP from its original purpose to protect highly erodible land. CRP encourages resource idling and land retirement policies that hurt rural economies and help undermine U.S. farm export opportunities, reduce pastureland for livestock, and could undermine the nation's ability to increase renewable energy production.

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[1] USDA's Farm Service Agency's Conservation Reserve Program: Summary and Enrollment Statistics – 2005

[2] USDA's Economic Research Service's July 2006 issue of *Amber Waves*, Farmland Retirement's Impact on Rural Growth

ARA supports the use of economic and environmental impact analysis, including county specific analysis, in the consideration on enrollment of land in the CRP or other federal land management and conservation programs. ARA recommends Congress consider the following:

- Significantly reduce the overall authorized acreage allowed to go into CRP;
- Allow for haying and grazing to take place on CRP enrolled land in all participating counties without having to be listed as a level "D3 Drought- Extreme" or suffered at least a 40 percent loss of normal moisture and forage for the pre-ceding four-month period. CRP participants after providing notification to their local FSA office should have the flexibility in any given CRP enrollment year to open their lands for haying and grazing. However, doing so would result in a 25 percent reduction in their CRP payment;
- CRP participants should also be allowed to opt out early from part or all of their contracts to produce biomass crops for the production of renewable fuels. 10-year CRP contracts are too long and do not provide the flexibility for landowners to properly take advantage of new market opportunities in the production of corn, soybeans or other biomass crops that can be used in ethanol production, biodiesel or other forms of renewable energy such as solar and wind to help meet the fuel and energy needs of rural communities. In recent congressional testimony, USDA Chief Economist Keith Collins, stated that domestic ethanol production "appears on a path that exceeds USDA's long-term projections" and that "the U.S. will require substantial increases in corn acreage to prevent exports from declining and livestock profitability from falling."[3]

Technical Service Providers (TSP)

The current Farm Bill allows public/private partnerships in the delivery of technical expertise to farmers and ranchers, including the development of nutrient management plans, the development of conservation plans, and design and certification of conservation practices. Third-party providers may include producers, retailers, certified crop advisers (CCA's), certified professional crop consultants (CPCC's), Professional Crop Advisor (PCA) and other individuals meeting the training and education criteria.

- Certified crop advisers (CCA's) have extensive expertise and local knowledge in nutrient management, resource stewardship, and custom application of crop protection products and fertilizers.
- Agriculture retailers and other CCA's already have working relationships with producers and understand their specific needs. Producers turn to their retailer or CCA for soil testing, fertilizer, seed, farm inputs, and for resource management advice.
- The new Farm Bill is likely to establish an increased emphasis on conservation, ramping up funding for EQIP, CRP, and other conservation programs. The new conservation workload can best be met by supplementing traditional delivery methods with retailers and CCA's already trained and equipped for the job.
- Producers should have an option to choose local technical service providers to help develop and implement natural resource conservation plans.

ARA supports the continuation of the TSP program. However, we believe there should be a greater cooperative effort between USDA and agricultural retailers on program flexibility and payments.

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[3] Statement of USDA Chief Economist Keith Collins in testimony before Senate Environment and Public Works Committee, September 6, 2006.

Pesticide Applicator Standards

Agricultural pesticides are applied in a wide array of agricultural lands, including those enrolled in farm bill programs. ARA believes that Congress should establish the same competency standards for both commercial and private pesticide applicators through valid exams, education and training requirements. Unless the pesticides are listed as a "restricted use pesticides" (RUPs), there is no federal requirement for competency by a private applicator. Only commercial applicators of RUPs or non-RUPs are required to take a written exam to demonstrate competency as well as under go extensive training and education. According to the EPA, in 2004 there were over 650,000 certified private applicators (i.e. farmers) and over 420 certified commercial applicators. It is common industry knowledge that 25 percent of the new applicator equipment and 80 percent of used applicator equipment is being purchased by farmers. In addition, it is estimated that as much as 30 percent to 40 percent of all pesticide applications are now being conducted by farmers or other private ground applicators. Crop inputs such as pesticides are applied with large application equipment with boom widths of 18.2 to 36.5 meters or larger. An average cost for a new self-propelled, boom sprayer with precision guided equipment can be well over $200,000. To help cover the cost of this equipment, many private pesticide applicators are doing a significant amount of custom farm work on other farming operations. Private applicators tend to use older non-precision equipment and are less experienced and more prone to make errors which lead to higher instances of spray drift and less accuracy in regards to the application of product on the crops.

The absence of minimum testing standards for non-commercial applicators of pesticides on agricultural lands makes users with inadequate knowledge an increased risk to human health and the environment as it relates to the use of applicator equipment, spray drift, and overall safety. Technology, equipment, risk assessments, labels, and other important information related to the proper application and use of pesticides is constantly changing and all applicators need to maintain knowledge and minimal levels of competency in order to ensure strong environmental stewardship and safety to human health. Private pesticide applicators have access to the same products as certified commercial applicators and should be required to meet the same standards of competency. Currently there is a wide variation of exams from state to state; standardization of exam requirements would help facilitate reciprocity between states.

WHAT OPPORTUNITIES CAN FARM BILL POLICY FOSTER FOR U.S. AGRICULTURE?

Promote the Increased Production of Home Grown Biofuels

The biggest growth opportunity for America's agricultural industry probably rests with the nation's increased production of renewable fuels such as ethanol and biodiesel. Due to the ongoing war against terrorism, uncertainty in the Middle East, rising fuel and fertilizer prices, there is an increased interest in the development of home grown, renewable energy. According to USDA, U.S. energy consumption is expected to increase by 30 percent by 2030, so the supply would need to grow at least that much just to keep its current market share. Increased demand for renewable fuels helps increase the price a farmer receives for their crops, whether it is corn, sorghum, soybeans and other crops.

USDA's Rural Development Office currently provides financial assistance in the form of grants and loans to improve the economy and quality of life in rural America. Several USDA programs can provide funding as well as technical assistance in the development of ethanol facilities. ARA supports efforts to increase funding for programs such as the Business and Industry (B&I) Guaranteed Loan Program, Rural Business Opportunity Grants, and Rural Business Enterprise Grants to help in the construction of new ethanol production facilities, which can produce more fuel and increase jobs and economic opportunities in rural communities. There is also the Commodity Credit Corporation (CC) Bioenergy Program that has been providing $150 million annually in incentive payments to bioenergy producers in the U.S. that increase their purchase of agricultural commodities over the previous fiscal year and use that product to increase bioenergy production at the facility. ARA is a part of the 25 x '25 Ag Energy Coalition, which supports the goal of 25 percent of our energy be produced from renewable resources such as biofuels, wind and solar by the year 2025 and urges Congress adopt H. Con. Res. 424 and S. Con Res. 97, which supports this new national energy goal.

Develop Private-Public Research on Economic Impact of Changing Transportation Systems
ARA believes that the next farm bill should authorize funding that would support the development of private-public research that will determine the economic impacts of the changing transportation systems on agricultural retailers and distributors. This research effort should provide long-term recommendations to Congress on federal transportation policies to address chronic concerns impacting the nation's agricultural industry. ARA recommends the Secretary of Agriculture establish a formal Ag Transportation Advisory Council to address issues related to all major modes of transportation (railroad, trucking, waterways and air). This transportation advisory council would be similar in function to USDA's Air Quality Task Force that was created in the 2002 farm bill.

Increase Hours of Service Agricultural Exemption from 100 to 150 Miles
ARA recommends Congress increase the hours of service agricultural exemption from the current 100-air mile radius to 150-air miles. Agricultural retailers heavily depend on this specific HOS exemption in order to ensure that essential crop inputs can be delivered to their farmer customers during peak times of the year. This proposed air mile radius modification would better reflect the change and consolidation that has taken place the last several years within American farming operations and the retail industry that provides all their farm supply needs. This proposal, if enacted, would also make this exemption for the agricultural industry similar to the U.S. Department of Transportation's (DOT) 150 mile radius for short haul drivers.

CONCLUSION
Mr. Chairman, thank you for the opportunity to express our views today. These issues should be fully and thoroughly discussed as this committee writes the 2007 farm bill. America's agricultural industry faces many challenges ahead. It is only if we continue to work together on important issues such as conservation, proper environmental stewardship, and increased renewable energy production can we hope to maintain a growing and vibrant agricultural industry and the rural communities they represent. Thank you!

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Biography

Born and raised on a grain, livestock and dairy farm outside of Enid, Garfield County, Oklahoma. I attended Oklahoma State University – Stillwater, Oklahoma, graduating in May of 1978 with a Bachelor of Science in Agriculture Economics.

Began working for W.B. Johnston Grain Co. in November 1978. Training in feed sales and truck logistics, expanded to fertilizer and chemical retail, wholesale sales and procurement, and open account credit and delinquent accounts.

In 1990 promoted to Vice President of W.B. Johnston Grain Co.

In 1997 appointed to Executive Committee of Johnston Enterprises.

In 1998 Promoted to Vice President and General manager of Johnston Transportation, Inc. and Board of Directors of W.B. Johnston Grain Co., Johnston Port 33, and Johnston Transportation, Inc.

In 2000 promoted to President and Chief Operating Officer of Johnston Transportation, Inc.

In 2006 promoted to Executive Vice President and Chief Operating Officer of W.B. Johnston Grain Co. managing fertilizer and chemical assets, Johnston Transportation assets, and assist with country locations and management decisions of Johnston Enterprises, Inc.

I am a Member of the Enid Chamber of Commerce serving on the agriculture committee.

I am a Board member of the Oklahoma Agri business Retailers Association, served as chairman in 1995 – 1996.

I am the current chairman of the Agricultural Retailers Association, (ARA) Regulatory Policy Subcommittee and member of the ARA Board of Directors.

In my personal life, my wife Sharon and I have two adult sons, Kyle and Michael. We attend St. Francis Xavier Catholic Church, Enid, Oklahoma.